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Mexico

Development and Democracy at a Crossroads

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Opening Mexico's Economy

Mexico began to open up its economy in the 1980s when collapsing petroleum prices and rising international interest rates made its import-substitution economic model—characterized by high levels of protectionism and strong state participation—untenable. In the aftermath of an international debt crisis, the government embarked on a series of unilateral measures, eliminating import licensing and reducing tariffs.[1] In the early 1990s, the government of President Carlos Salinas de Gortari embarked on a series of privatizations, including telecommunications, steel, railroads, airlines, shipbuilding, electricity and natural gas distribution, and insurance and the entire banking system—over nine hundred sales in total.

The signing of the North American Free Trade Agreement (NAFTA) in 1993 sealed Mexico's economic opening. NAFTA solidified some ten years of unilateral trade liberalization, and established further commitments to eliminate tariff and nontariff trade barriers to intraregional trade and to reduce restrictions on foreign investment between Mexico, the United States, and Canada over the next decade. In the wake of NAFTA, Mexico's exports to its northern neighbor quadrupled and U.S. exports to Mexico tripled, bringing the annual total to nearly $400 billion a year.[2] After NAFTA, Mexico went on to sign trade agreements with an additional forty-two countries, making it Latin America's largest importer and exporter. With trade averaging just under 40 percent of GDP, Mexico today is one of the world's most open economies and ranks sixteenth in the volume of global trade.

Yet despite its free trade and pro-business credentials, from other vantage points Mexico's markets are much less free. Oligopolies and state monopolies continue to exert considerable influence over crucial sectors of the Mexican economy. In telecommunications, the media, cement, soft drinks, bread and tortillas, and electricity and energy, one or a few companies dominate. Mexico's billionaires, unlike American heavyweights such as Bill Gates or Warren Buffett, generally made their money from these uneven playing fields. Special interest groups, in business as well as labor, have managed to block changes. Perpetuating these economic fiefdoms increases inequality and limits competitiveness, innovation, and ultimately growth.

Physical infrastructure holds Mexico back as well. By the early 2000s, Mexico was last among Latin American economies—and far behind their OECD counterparts—in terms of infrastructure investment as a portion of GDP. The limits on roads, railroads, ports, water and electricity systems, telecommunications, and the like hamper efficiency and productivity throughout the economy—shaving valuable cents off Mexico's industrial competitiveness. To fund an infrastructure transformation, Mexico will have to reform its tax system—currently one of the lowest in the world, besting only Guatemala in the hemisphere by collecting some 11 percent of GDP.

Last year, Mexico celebrated as it claimed the top spot in Latin America in the World Bank's Doing Business survey, overtaking Colombia. By revamping its bankruptcy laws and cutting the burdens on doing business, at a global ranking of 35 (up from 41 in 2010) Mexico today is far ahead of Brazil, its much-hyped rival, at 127. Nevertheless, as its peers and neighbors reform their institutions and labor markets and invest in education, infrastructure, and innovation, Mexico is falling behind on broader measures of competitiveness. In the World Economic Forum's 2010 Global Competitiveness Index, Mexico's ranking fell six notches to sixty-sixth among 139 countries. The country's large, unwieldy bureaucracy; unreformed labor laws; weak regulatory framework; and low investment in human and physical capital will continue to hinder competitiveness,[3] while its customs regulations and product standards introduce further pitfalls for foreign investors.

Finally, financing, particularly for small and medium sized companies—those that provide the most jobs and most opportunity for social and economic mobility—is limited. Mexico's large banks, owned today predominantly by international players, are more interested in lending to easy borrowers—blue chip companies well known in domestic or international markets—than in taking a chance on local entrepreneurs. This hobbles job growth and the economy overall.

Yet things are changing. In recent years Walmex[4] (Wal-Mart's Mexico operations and the country's largest private sector employer), Banco Azteca (part of the Grupo Salinas conglomerate owned by Mexican billionaire Ricardo Salinas Pliego), and Carlos Slim's Grupo Financiero Inbursa have opened banks appealing directly to middle- and lower-class consumers, homebuyers, and businesses. Microcredit organizations—a favorite of some development economists and international organizations such as the World Bank—have scaled up, with one, Compartamos,[5] going public on Mexico's stock exchange in 2008. These new avenues suggest that credit may begin to spread beyond its traditional exclusive realm, offering an opportunity to open up Mexico's markets as much as official agreements such as NAFTA did.

On balance, while not achieving the market nirvana of Chile, progress is being made. Although regulation remains weak, Mexico's Supreme Court in 2007 struck down the so-called Televisa Law that would have cemented the duopoly television broadcasters Televisa and TV Azteca.[6] More recently, President Felipe Calderón submitted a legislative proposal to Congress to enhance the regulatory power of the anti-monopoly agency and punish antitrust violations with fines and imprisonment.[7]

Perhaps the most important dynamic to emerge in recent years is the rise of Mexico's middle class. Now nearly forty million strong, middle-class families are the pillars of open market and democratic stability. They work in small and medium enterprises (often in the informal economy), and strive for six Cs: *casa propia* (a home of one's own), a car, a cellphone, a computer, cable television, and trips to the cinema.[8] As some businesses are realizing, they are important consumers and the backbone of future growth. Wal-Mart opened nearly three hundred stores in 2010 alone—all small supermarkets targeted at this expanding income bracket—and continues to aggressively expand throughout the country.[9]

This middle class will in large part determine the economic future of Mexico. If it grows, so too will Mexico's economy. More important, this socioeconomic sector is the most likely to push for the changes necessary to truly open Mexico's markets. And, as the sector grows, its economic demands may find a receptive environment in Mexico's burgeoning democracy.

Making Democracy Work

In 2000, Mexicans and the international community hailed the victory of opposition candidate Vicente Fox from the National Action Party (PAN) as president. His election and inauguration were the culmination of Mexico's slow transition to democracy, ending seventy years of one-party rule. Today Mexico's three main parties—the PAN, the Institutional Revolutionary Party (PRI), and the Party of the Democratic Revolution (PRD)—compete in reasonably clean and transparent elections, by all accounts fulfilling the requisite of electoral democracy.

Yet many worry about the true depth of change within Mexico's political system. Mexico's formal and informal rules still limit transparency and accountability from the political class. The blanket prohibition of reelection—whether for president or local town council—leaves few incentives for politicians to fulfill their campaign promises. Instead, as they seek higher office, they must have the support of unelected party leaders. Informally, some of the most powerful ministries in Mexico, as well as the increasingly influential state governments within the federal system, have begun to push back against broader transparency and accountability. Denied or ignored requests under Mexico's freedom of information act are increasing, particularly in the realm of security. Continued weak democratic governance and a lack of accountability is perpetuating corruption, and persistent impunity erodes the credibility of institutions.

Public opinion is showing increasing disillusionment with democracy. Last year's Latinobarómetro survey of attitudes toward democracy in eighteen Latin American countries showed Mexico with the lowest level of support in the region. Only 62 percent of Mexicans agreed that "democracy was the best form of government," compared to an average of 76 percent across the region.[10]

The possible resurgence of the old ruling party— the PRI—in recent state-level elections and within the national congress has many worried about a return to the past. Today, by most accounts, the 2012 presidential election is the PRI's to lose. A PRI win might signal a further entrenchment of corporatist-clientelist governance beholden to oligarchic interests.

But as the economic side has its silver lining, so too does Mexico's political system. After ten years of democracy, Mexico's politics have indeed been transformed. The days of Mexico's "imperial presidency" are gone. Government institutions— from the Federal Electoral Institute (IFE) to the Federal Institute for Access to Information (IFAI)—have gained ground, opening up the workings of elections and government to a vibrant and independent media and to Mexico's citizens more broadly. Congress and the Supreme Court now matter for policymaking. In fact, the lack of significant reform in Mexico bemoaned by many reflects a common democratic occurrence—legislative gridlock. And even there, Mexico's political parties are slowly learning to work together. President Calderón has cobbled together legislative majorities to reform pensions, taxes, and the oil sector, as well as the judicial system and electoral laws.

Mexico has also seen a burgeoning of civil society. Years of co-optation, and at times repression, by the authoritarian PRI government decimated the ranks of independent non-governmental organizations. Today, although still weak in comparison to the rest of the region, the number, plurality, and vibrancy of civil society organizations, networks, and alliances is unprecedented. Their focus has also expanded, from social development to grassroots democracy, human rights, and, more recently, security.[11] Their work has broken new ground with the passage of the country's federal freedom of information act in 2002, which represents a milestone in a campaign for transparent and accountable government begun in the 1970s, and with the 2008 judicial reforms, which, once implemented, will fundamentally transform Mexico's judicial system.

Last year's July state-level elections show evidence for optimism. With elections for twelve governorships up for grabs during a difficult election year, half of them changed party hands. Among these were three that had been ruled continuously by the PRI for over eighty years—representing the more authoritarian tendencies of the past. Voters in each of these states galvanized to "throw the scoundrels out," hoping to bring in a more open and inclusive future government. In the other three, voters unhappy with the previous administration kicked out the incumbents, also a common occurrence in flourishing democracies.

The fight against drug trafficking, however, is exacting a political toll. Drug trafficking organizations are increasingly gaining influence over the state by alternatively funding or threatening (mostly local) political campaigns, and by infiltrating law enforcement and court systems. In the lead-up to last July's elections drug traffickers played their most visible role yet in trying to subvert the democratic process. Several campaign offices were bombed, candidates were threatened and killed, and dead bodies were hung from bridges on the morning of the polling. However, in spite of the violence, Mexico's voters turned out in large numbers to elect new governors, mayors, and state representatives. In fact, they rejected candidates with perceived links to traffickers. Despite the escalating violence, Mexico's democracy, flawed as it may be, endures.

It is unrealistic to expect a country to turn instantly from a closed corporatist economic system to an open competitive market, or from an authoritarian one-party state to a truly open, competitive, and inclusive democracy. At the same time, Mexico has now been on these paths for over two decades, and in a global world, time may be running out. Mexico's relatively slow economic growth and marginalization in the global economic and democratic subgroups (the BRICs and the BASIC countries, among others) has at least in part to do with its inability to get past its own legacies. Mexico today is at a crossroads—the question is which path it will take.

Endnotes

1. Today, 80 percent of imports by value are free of quantitative restrictions, tariffs have been reduced to a maximum of 20 percent (with a weighted average of 10 percent), and most government export supports and subsidies have been done away with.
2. http://www.census.gov/foreign-trade/balance/c2010.html#2010.
3. World Bank, “Doing Business 2011: Mexico,” 2011, http://www.doingbusiness.org/Documents/CountryProfiles/MEX.pdf.
4. William Freebairn, “Walmex’s Bank Plans 100,000 Credit Cards by Year-End,” Bloombert, October 17, 2008, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aCpyuBuzHWLM&refer=news.
5. Emily Schmall, “Compartamos to Expand Bank Services as Walmex Enters,” Bloomberg, October 13, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aCuvkdjPuPlQ.
6. Noel Randewich, “Shake-up of Mexico TV Law Seen Good for Competition,” Reuters, June 8, 2007, http://www.reuters.com/article/2007/06/08/idUSN0838026520070608.
7. SourceMex Economic News & Analysis on Mexico, “President Felipe Calderon Introduces Anti-Monopoly Initiative,” April 7, 2010, http://www.allbusiness.com/legal/antitrust-trade-law-monopolization/14259697-1.html.
8. Luis de la Calle and Luis Rubio, “Clasemedieros,” Nexos, January 5, 2010, http://www.nexos.com.mx/?P=leerarticulo&Article=73171.
9. Walmex December 2010 Sales, January 6, 2011, http://walmex.mx/assets/files/Informacion%20financiera/Mensual/Eng/2010/December%202010%20Sales.pdf .
10. Corporación Latinobarómetro, “Report 2009,”November 2009, p. 37.
11. Maria Isabel Verduzco and Aguirre Reveles, “The CIVICUS Index of Civil Society Project in Mexico,” Mexican Center for Philanthropy, http://www.civicus.org/new/media/mexico.pdf.

Economic theory is currently at a crossroads, where many leading mainstream economists are calling for a more realistic and practical orientation for economic science. Indeed, many are suggesting that economics should be reconstructed on evolutionary lines.Â Taking a longer view than most literature on economic development, Richard A. Easterlin stresses the enormous contrast between the collective experience of the last half century in both developed and developing countries and what has gone before. An economic historian and demographer, the author writes in the tradition of the "new economic history," drawing on economic theory and quantitative evidence to interpret the historical experience of economic theory and population growth.